

September 27, 2013

Honorable Mike Marshall,  
Secretary of the Senate  
Honorable Carmine Boal,  
Chief Clerk of the House  
General Assembly of the State of Iowa  
Des Moines, IA 50319

Dear Mr. Marshall and Ms. Boal:

Enclosed is the Iowa Public Employees' Retirement System's report for the fiscal year ended June 30, 2013, on divestment activities related to companies doing business in Iran. This annual report is required by Iowa Code section 12H.5.

The report describes IPERS' implementation of the Iran divestment program and provides information on IPERS divestment activities and costs. The report also includes the list of prohibited companies that was in effect as of June 30, 2013.

Sincerely,



Donna M. Mueller  
Chief Executive Officer

Enclosure

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
ANNUAL REPORT  
ON IRAN DIVESTMENT  
For the Fiscal Year Ended June 30, 2013**

Iowa Code chapter 12H requires the Iowa Public Employees' Retirement System (IPERS) to scrutinize companies with business operations in Iran, and under certain circumstances, to restrict its purchases of, and/or divest of, holdings of any company determined to have active business operations in Iran. Chapter 12H specifies certain procedures to be followed in engaging companies doing business in Iran, and requires IPERS to annually report to the General Assembly on its activities concerning the Iran divestment law.

### **Implementation**

IPERS develops its list of scrutinized companies using the research and findings of IWF Financial (IWF). IPERS and several of the public entities covered under Chapter 12H contracted with IWF to provide these services. IWF is a research firm that specializes in researching and monitoring the activities of companies against various types of environmental, social and governance screens. IWF uses the criteria established in Chapter 12H to screen various sources of publicly available information in order to provide IPERS with a list of scrutinized companies. IWF also assists IPERS in evaluating any follow-up responses from scrutinized companies.

IPERS sends a letter to each company believed to have active business operations in Iran and asks them to discontinue their operations in the Iran. Companies are given the opportunity to provide evidence that contradicts IWF's findings. The letter also notifies the company that IPERS will prohibit further investment and/or divest of its holdings in the company's securities if the company does not meet the requirements of the law. If the company does not respond, or fails to provide convincing evidence within the time period established by law, then IPERS places the company on its prohibited companies list. The prohibited companies list is updated quarterly, and is provided to the public on IPERS' Web site at [www.ipers.org](http://www.ipers.org).

IPERS' investment managers are prohibited from purchasing securities issued by companies on the prohibited companies list. Investment managers that have any existing direct holdings<sup>1</sup> of a prohibited company must sell (divest) the position within

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<sup>1</sup> It is important to note that chapter 12H makes a distinction between direct holdings and indirect holdings. *Direct holdings* are securities directly owned and held in IPERS' name. *Indirect holdings* refer to situations where IPERS may indirectly own an interest in a security because of its ownership of shares in a commingled investment vehicle, such as a mutual fund. The General Assembly recognized that it may not be possible to efficiently divest of prohibited companies held in a commingled fund, and exempted indirect holdings from many provisions of chapter 12H. IPERS is required to analyze the prudence of moving its indirect holdings to Iran-free commingled funds if such an option exists. See section on Indirect Holdings.

18 months of the date the company was first notified. An investment manager has the discretion to decide when to sell its holdings within the 18 month period.

Chapter 12H requires IPERS to engage only those scrutinized companies in which it has direct holdings. However, IPERS has opted to send letters to all scrutinized companies, and will place a scrutinized company on the prohibited companies list if warranted, regardless of whether or not IPERS has any direct holdings in the company. This is done because IPERS prefers to engage a company and determine whether it is a prohibited company pursuant to the law's criteria before an investment manager purchases any securities of such company. IPERS' investment managers want to know if a company is prohibited before buying it - not afterwards.

Chapter 12H also requires IPERS to contact companies that have inactive business operations in Iran. However, the purpose of such letter is to encourage them to keep their business activities inactive until state-sponsored terrorism stops in Iran. IPERS uses information from IWF to determine which companies may have inactive business operations in the Iran. Currently, no companies have inactive business operations in Iran as defined in Chapter 12H.

### **Fiscal Year 2013 Engagement Activity**

The following chart summarizes the numbers of companies contacted by IPERS in fiscal year 2013 pursuant to chapter 12H.

<b>Time Period</b>	<b>Number</b>
Sept. 30, 2012	3
Dec. 31, 2012	0
Mar. 31, 2013	2
June 30, 2013	1

Letters were sent to six companies under scrutiny for active business operations. IPERS received responses from two of these companies. During fiscal year 2013, only five companies were added to the prohibited companies list, and thirty companies were removed. The companies were removed because IPERS, with the assistance of IWF, concluded that they no longer met the criteria established in Chapter 12H. IPERS' prohibited companies list in effect as of June 30, 2013 is included as Appendix A to this report.

Chapter 12H also requires IPERS to send reminder letters to companies on the prohibited companies list and encourage them to transform their operations to inactive operations. This task was completed in September 2013 for the forty four companies on IPERS' prohibited companies list on July 26, 2013.

## **Fiscal Year 2013 Divestment Activity**

Last year at June 30, 2012, IPERS had direct holdings in nine stocks and two bonds that together were valued at \$50,595,896.67. These securities were all on the initial prohibited companies list and were required to be divested by July 27, 2013. At the close of fiscal year 2013 on June 30, 2013, IPERS direct holdings were comprised of a single bond valued at \$80,242.40. In order to get in compliance with chapter 12H, IPERS instructed the manager holding that bond to sell it in advance of the July 27, 2013 deadline. IPERS is pleased to announce that it currently has no direct holdings in any prohibited security.

Much of the dwindling of the direct holdings in prohibited securities occurred because six of the nine companies, in which IPERS had stock holdings, and one of the two companies, in which IPERS had bond holdings, were removed from the prohibited companies list. It is impossible to separate how much of the selling that occurred in the six stocks that were removed from the list was due to the targeted Iran legislation and how much was due to normal market activity. In fiscal year 2013, IPERS' positions in the three companies on the prohibited companies list on June 30, 2012 were completely liquidated. The combined sales of 284,556 shares had a combined value of \$9,091,793.01. The commissions on these sales amounted to \$16,774.27 in fiscal year 2013.

Additionally, a bond holding with a total par value of 7,555,000 (market value of \$8,018,654.65) was divested in fiscal year 2013. Since bonds trade on the basis of a bid/ask spread without commissions, we cannot know the imputed trading cost to the fund from this bond sale, but it would be a small amount.

There are two instances of prohibited stocks being purchased. In the first instance, the manager informed us the next day after the purchase violation and the stock was sold the following day. There was a gain to IPERS of \$6,849.13, which was offset by extra commissions of \$511.51. The other case involved a 67,100 share purchase of Honeywell on September 19, 2012. This particular security was removed from the prohibited list on October 19, 2012. In that span of time, those Honeywell shares appreciated more than \$80,000, but commissions of \$1,342.00 were incurred.

## **Indirect Holdings**

As noted earlier, chapter 12H makes a distinction between direct and indirect holdings. IPERS had indirect holdings in nine stocks of companies listed on the prohibited companies list on June 30, 2013 that were valued at \$21,399,906.90. Additionally, IPERS had indirect holdings in the bonds of one company listed on the prohibited companies list on June 30, 2013 that were valued at \$1,734,982.40. In total, IPERS had \$23,134,889.30 worth of indirect holdings as of June 30, 2013, which comprised 0.09% of the total IPERS fund.



While indirect holdings are generally exempt from most of the provisions of the law, IPERS is required by law to evaluate the prudence and potential costs associated with moving its indirect investments to funds that will comply with chapter 12H, if any such vehicles exist. IPERS investment staff collected information concerning the potential cost of moving its indirect holdings to Iran-free alternatives in the second quarter of 2012 and presented such information to the IPERS Investment Board at its June 21, 2012 meeting. The Investment Board agreed with staff that it was not prudent to incur the trading costs required to eliminate relatively small indirect exposures to prohibited companies.

### **Fiscal Year 2013 Program Costs**

The cost to implement the Iran monitoring and divestment program have been very low so far. IPERS has not incurred any staff overtime costs during the implementation phase of the program. IPERS has incurred third party costs for research services through IWF of \$7,600.00. Also, as mentioned earlier, IPERS in fiscal year 2013 has incurred commission costs of \$16,774.27 to divest of stocks in prohibited companies.

### **For More Information**

See IPERS' Web site at [www.ipers.org/investments/restrictions\\_iran.html](http://www.ipers.org/investments/restrictions_iran.html) for quarterly updates throughout the year. IPERS staff can be reached by e-mail at [investments@ipers.org](mailto:investments@ipers.org) or by telephone at 515-281-0030.

# Appendix A

## Iowa Public Employees' Retirement System's Iran Prohibited Companies List

April 25, 2013

	<u>Divestment Date *</u>
» Aban Offshore Ltd.	July 27, 2013
» Arabian Pipes Co	October 27, 2013
» Bharat Petroleum Corporation Ltd.	July 27, 2013
» BP plc	July 27, 2013
» Chadormalu Mineral & Ind. Co.	July 27, 2013
» China Nonferrous Metal Industry's Foreign Eng. And Const. Co. Ltd.	July 27, 2013
» China Oilfield Services	July 27, 2013
» China Petroleum & Chemical Corp	July 27, 2013
» Crompton Greaves Ltd.	July 25, 2014
» Daelim Industrial	July 27, 2013
» Dominion Energy PLC	July 27, 2013
» Doosan Co., Ltd	July 27, 2013
» Doosan Heavy Industries and Construction	July 27, 2013
» Engineers India Ltd.	January 19, 2014
» Exmar SA	July 27, 2013
» Finmeccanica Spa	January 19, 2014
» Gail (India) Ltd.	July 27, 2013
» Gas Natural SDG	July 27, 2013
» GS Engineering & Construction Corp	July 27, 2013
» GS Holdings	July 27, 2013
» Ilyushin Aviation Complex	July 27, 2013
» Ina-Industrija Nafte DD	July 27, 2013
» Indian Oil Corporation Ltd.	July 27, 2013
» Johnson Matthey PLC	July 27, 2013
» KEC International Ltd.	July 27, 2013
» Mitsui & Co. Ltd	July 27, 2013
» MMC Corp Bhd	July 27, 2013
» Motor Sich	July 27, 2013
» Nagarjuna Fertilizers & Chemicals Ltd.	July 27, 2013
» Oil & Natural Gas Corporation Ltd.	July 27, 2013
» Oil India Ltd	July 27, 2013
» OMV AG	July 27, 2013
» Outotec Oyj	July 27, 2013
» PetroChina Co. Ltd.	July 27, 2013
» Petrofac	July 27, 2013
» Power Machines	July 27, 2013
» Poyry PLC	July 27, 2013
» PTT Public Company Limited	July 27, 2013
» Saipem Spa	July 27, 2013
» Sinohydro. Group, Ltd.	July 25, 2014
» SK Networks Co. Ltd.	July 27, 2013
» Technip	July 27, 2013
» Toyo Engineering Corporation	July 27, 2013
» Tupolev Oao	July 27, 2013
» UCL Resources Limited	July 27, 2013
» United Aircraft Corporation	July 27, 2013
» Zio Podolsk Machinery Plant	July 27, 2013

» Denotes companies with active business operations. There are no companies with inactive business operations. Note: not all of these companies are held by IPERS.

\* Denotes deadline for divesting of security.